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Voluntary - Public

Date: 9/1/2009

GAIN Report Number: BM9020

Burma - Union of

Post: Rangoon

Agricultural Development Companies - 2009

Report Categories:

Agricultural Situation

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Report Highlights:

BM9020. In order to alleviate credit problems among Burmese farmers, the Government of Burma (GOB) recently encouraged private entrepreneurs closely linked with the GOB to form Agricultural Development Companies (ADC). The purpose of these ADC's is to provide agricultural loans to farmers in Irrawaddy and Pegu Divisions for the planting of grain crops. Beginning in 2009, each farmer holding at least 5 acres received a credit of 50,000-100,000 Kyat (\$44-88) per acre with a 2 percent interest rate. However, the loan provisions are reportedly far from meeting the needs of farmers since only farmers in good standing have access to the loans and the loans do not cover the total production costs.

Executive Summary:

The inability of the Burmese financial sector to provide adequate agricultural loans has been a limiting factor in the development of agricultural production in Burma. The Myanmar Agricultural Development Bank (MADB), a government-run entity, provides loans of 8,000 Kyat /acre (\$7), which fall short of the 100,000 Kyat (\$88) per acre needed to produce an acre of paddy rice. As a result, most Burmese farmers must rely on informal money lenders who charge high interest rates. This situation has had the effect of causing most Burmese farmers to live in a vicious cycle of debt and stifling production.

In order to increase credit supply among Burmese farmers, the Government of Burma (GOB) recently encouraged private entrepreneurs closely linked with the GOB to create Agricultural Development Companies (ADC). The purpose of these ADC's is to provide agricultural loans to farmers in Irrawaddy and Pegu Divisions for the planting of grain crops. However, the loan provisions are reportedly far from meeting the needs of farmers given that only farmers in good standing have access to these loans and the loans do not cover the total production costs.

A Lack of Agricultural Development Limits a Potential Growth in Rice Exports

Burma's rice exports increased significantly in 2008 and are forecast to grow further in 2009. Burma is successfully recapturing some of its traditional markets such as those in Africa. However, most of the exported rice is of inferior quality and generally sells \$100-120/ton below equivalent grades from Thailand and Vietnam.

In order to compete with Thailand and Vietnam, Burma needs to develop its rice production and grading systems, and be able to ensure steady supplies throughout the year. However, development is hampered due to a poorly functioning system for credit.

The inability of the Burmese financial sector to provide adequate agricultural loans has had a lingering effect on the country's development of production and grading systems which stifled growth in rice exports. The Myanmar Agricultural Development Bank (MADB), a government-run entity, provides loans of 8,000 Kyat /acre (\$7), which fall short of the 100,000 Kyat (\$88) per acre needed to produce an acre of paddy rice. As a result, most Burmese farmers must rely on informal money lenders who charge high interest rates of 10-15 percent per month and as low as 5 percent for farmers who place gold as collateral. In addition to high interest rates, farmers have encountered unfair repayment conditions such as below-market-price valuation of their commodities upon their in-kind repayment and the overcharging of interest when they fail to repay the loans. This situation has had the effect of causing most Burmese farmers to live in a vicious cycle of debt.

An Initiative for the Establishment of Agricultural Development Companies

In order to alleviate this debt problem among Burmese farmers, the Myanmar Agricultural Produce Trading (MAPT), an agency under the Ministry of Commerce, recently encouraged private entrepreneurs closely linked with the GOB, mainly rice millers and traders, to form Agricultural Development Companies (ADC). The purpose of these ADC's is to provide agricultural loans in Irrawaddy and Pegu Divisions for the production of grain crops, especially paddy and beans and pulses. These loans can be used for the payment of labor and production inputs. The ADC's would also buy back the farmers production at prevailing market prices.

Under the guidance of MAPT, ADCs instituted the following guidelines:

- Disburse agricultural credit to the people engaged in agriculture production with interest rates not exceeding 2 percent per annum.
- Ability of credited farmers to sell their crop production to the ADC's at prevailing market prices.
- The ADC's would process purchased commodities and sell them domestically and/or internationally.
- The ADC's profit must be shared among its members up to its targeted profit. If the profit exceeds the targeted profit, the surplus must be refunded to credited farmers proportionally or invested back into the company.

MAPT rules that:

- ADCs' board of directors and members must be Myanmar citizens who are experienced with paddy or beans and pulses production. .
- ADC's must have enough liquidity to cover payment obligations for commodities purchased from farmers.
- Utilization of seed and fertilizer should be done in accordance to the guidelines of the Myanmar Agriculture Service of the Ministry of Agriculture and Irrigation.
- Legal agreements between farmers and a company must bear witness from village elders. If disputes arise, these shall be settled by the Union of Myanmar Federation of Chamber of Commerce and Industry (UMFCCI) Arbitration Council.

Current ADC Activities

37 ADC's have been established as of August, and they are involved with 11,550 farmers in 442 villages in 14 townships. ADC's have provided a total value of 2,465 million Kyat (\$2.5 million) in loans for the production of 42,369 hectares.

- Da Nu Pyu Township

Kin Sa Na Kyun Tha Company (KSNKTC) is the leading ADC in DaNu Pyu Township, Irrawaddy Division. KSNKTC has lent 50,000 Kyat (\$ 50) to farmers holding at least 5 acres. It is estimated that 2009 loans have been disbursed for main crop paddy with an approximate value of 33,332,800 Kyat (approx. \$ 33,000) in loans for the production of 10,863 hectares.

- Bogalay Township

Irrawaddy Delta Production and Marketing Company Limited (IDPMCL), is a leading ADC in Bogalay Township. The company is a joint venture between Htoo Trading Company (with an investment of 3 billion Kyat) and a group of local entrepreneurs (with an investment of 2 billion Kyat). IDPMCL is focused on providing credit to 155 farmers for the production of quality seeds on 400 hectares in Haing See and Tha Kan village tracts of the Bogalay Township. It also plans to work with 581 farmers cultivating 81 hectares in Pyin Oh Gyi, Gayan, Bo Yaung village tracts. In addition, the company has distributed nearly 2 metric tons of paddy seed, 1,000 bags of fertilizer and 100,000 gallons of fuel to its contracted farmers.

- Pyapon Township

Yu Za Na Company is the leading ADC in Pyapon Township and is formed by 11 local entrepreneurs. The company has provided loans to about 300 farmers farming 4,000 hectares with a 2 percent interest rate per month. Credited farmers would receive 20,000 Kyat (\$ 20) prior to cultivation, 30,000 Kyat (\$30) during the seeding period, and the last 10,000 Kyat (\$ 10) during the harvesting period. This loan only covers 60 percent of the production cost, as a result farmers still have the need to use informal lending.

- YeWa Di Company is active ADC in MaU Bin Township while Kyaiklatt Dagon International Company is active in Kyaiklatt Township.

- Pegu Division

In Waw and Ka Wa Townships, confirmed sources reported that a few regional commanders of the GOB are involved in the lending business. They normally lend money through rice millers or small money brokers. These middle men, whom earn a 0.5 percent interest rate spread, are responsible for collecting the repayment from the farmers to the commanders.

Constraints

It is estimated that the loans from ADCs currently cover only 20 percent of the total cultivation area for main crop paddy (1.4 million hectares officially reported by the GOB). Farmers who can't get access to these loans will mainly rely on loans provided by the Myanmar Agricultural Development Bank (MADB) and private money lenders which is insufficient in the case of the former and expensive in the latter.

Although the amount of agricultural credit provided by ADCs is higher than that provided by the MADB, these loans usually cover between 30-60 percent of total production costs. This situation forces credited farmers to seek additional loans from private money lenders. Although the ADC's will likely extend their credit for years to come, farmers holding less than 5 acres are currently not benefiting from this scheme.

Table: Agricultural Development Companies and Crop Financing Offered

No.	Company Name	Crop Financing Offered
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1	Eden	Paddy/rice/beans and pulses
2	Max Myanmar	Paddy/rice/beans and pulses
3	Pan Thy Pyay	Paddy/rice
4	Htoo	Paddy/rice
5	Shwe Ngar Min	Paddy/rice
6	First Rice Paddy	Paddy/rice
7	Yu Za Na	Paddy/rice
8	Dragon International	Paddy/rice
9	Wa Te Paing	Paddy/rice
10	Aye Yar Shwe War	Paddy/rice
11	Ayeyarewaddy Paddy Rice	Paddy/rice
12	Myanmar Automotion	Paddy/rice
13	Diamond Star	Paddy/rice
14	Kay Tu Ma De/Htet Ar Kar Aung	Paddy/rice
15	National Prosperity Co., Ltd.	Paddy/rice
16	Fortune International	Paddy/rice
17	Hating Su Ngar	Paddy/rice
18	2000 Year Company	Paddy/rice
19	Rakhine Paddy Rice	Paddy/rice
20	Ayeyarwaddy Seeds	Paddy/rice
21	Ayeyar Henzada/Khit Ta Yar Henzada	Paddy/rice/beans and pulses
22	Kinsana Khun Tha	Paddy/rice
23	Myanmar Silver Lotus	Paddy/rice/beans and pulses
24	Bronze Bean	Beans and pulses
25	Peace Land Trading	Beans and pulses
26	Myanmar Shwe Than Lwin Brothers	Beans and pulses
27	Shwe Than Lwin	Beans and pulses
28	Ayeyar Henzada	Beans and pulses
29	Sein Htan Pin	Beans and pulses
30	Shwe Tha Zin	Beans and pulses
31	Myat No Oo	Beans and pulses
32	Myanmar Aw Ba	Beans and pulses
33	Pyi Pyo Aung	Beans and pulses
34	New Golden Gate	Beans and pulses
35	Shwe Pe	Beans and pulses
36	Paing Family	Beans and pulses
37	Aung Kyun Tha	Beans and pulses